City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 9, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #2: CALENDAR YEAR 2005 REAL PROPERTY ASSESSMENT REPORT

ISSUE: The Calendar Year 2005 Real Property Assessment Report for the City of Alexandria.

RECOMMENDATION: That City Council receive this report that shows the results of the annual assessment of real property[1] made pursuant to Section 4.08 of the City Charter.

DISCUSSION: Included in this report are the annual changes in real property assessments from CY 2004 to CY 2005 and historical statistics related to assessment appreciation, new construction and residential sales activities. Annual assessments have an effective date for valuation purposes of January 1 each year. Assessment reports typically represent data on a calendar year basis. Key changes in the assessed valuation of real property from CY 2004 to CY 2005 are summarized below.

OVERALL CHANGE IN CY 2005 REAL PROPERTY TAX BASE

This year, the City's overall real property tax base (including both locally assessed real property and state-assessed public service corporation property) increased 21.2%, or $4.78 billion from $22.58 billion in 2004 to $27.36 billion[2] in 2005 (Attachment 1, page 3, line 68, column 4).

The 21.2% increase is the third year in a row of approximately 20% increases to the real property tax base. For CY 2004, the City's real property tax base increased 18.4%. The increase in CY 2003 was 19.9%, in CY 2002 11.2%, and in 2001 the annual increase was 10.1%.

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[1]Real Property is defined as the interests, benefits, and rights inherent in the wonership of real estate. The Appraisal Foundation, Uniform Standard of Professional Appraisal Practice (2003 Ed.), p.4.

[2]The 2005 valuation includes the 2004 value of state-assessed public service corporation property. This value is certified by the State Corporation Commission and Virginia Department of Taxation in September 2004.

Table 1 - 10 Year History of Percentage Change in Real Property Tax Base

CY	Percent Change	CY	Percent Change
1996	0.8%	2001	10.1%
1997	2.2%	2002	11.2%
1998	4.0%	2003	19.9%
1999	5.0%	2004	18.4%
2000	9.1%	2005	21.2%

<u>Points of Interest Relating to CY 2005 Assessment Changes</u>:

- Locally assessed real property assessments (which consisted of new construction and appreciation of existing property) increased 21.9%, or $4.77 billion, from $21.81 billion in 2004 to $26.59 billion in 2005 (Attachment 1, page 2, line 44, column 4).

- Residential property increased 22.9%, or $3 billion, from $13.25 billion in 2004 to $16.3 billion in 2005. Commercial property increased 20.4%, from $8.6 billion in 2004 to $10.3 billion in 2005.

- State-assessed public service corporation property assessments increased .6%, or $4.6 million, from $768.4 million in 2004 to $772.9 million in 2005 (Attachment 1, page 3, line 66, column 4). The 2004 assessment is the value effective January 1, 2003, which is received in September 2003; the 2005 assessment is the value effective January 1, 2004, which is received in September 2004. These values are certified by the State Corporation Commission and the Virginia Department of taxation in late September of the effective year of the valuation. The City bills the non-locally assessed properties on a fiscal year basis, and, therefore, reporting the non-locally assessed value in this manner allows for accuracy in the budget and collection process.

- Tax exempt real property increased from $3.0 billion in 2004 to $3.5 billion in 2005, for a total increase of $489.9 million, or 16.1% (Attachment 1, page 4, line 87, column 4).

- New construction added a total of $695.6 million for CY 2005, or 14.6% of the total increase of $4.77 billion; $206 million was in residential new construction and $489.5 million in new commercial construction. In CY 2004, $580.6 million was added to the City's real property tax base as a result of new construction. This new construction has added $1.28 billion to the tax base in the last two years, or 4.8% of the current total tax base.

- Over the past five years, new construction (apart from its appreciation once completed) has added \$2.5 billion to the tax base, or 9.5% of the current total tax base.

- Driving the increase from new construction is the U.S. Patent and Trademark Office at Carlyle (USPTO), which increased in value from \$639.4 million in January 2004 to \$884.2 million in 2005, an increase of \$244.8 million. This increase represents 35.2% of all new construction in the City for 2005.

- New residential condominiums accounted for a portion of the new construction for CY 2005. These included Chatham Square, Preston Condominium, Liberty Row, Northhampton Condominium and The Royalton. Condominium conversions such as Palazzo at Park Center also contributed to the new construction in residential properties. Increases to sites such as Potomac Greens, The Monarch, The Prescott and the remaining land at Cameron Station (based on development potential) also added significant value to the new construction.

- Of the \$4.78 billion increase in the tax base, \$4.1 billion, or 85.4% of the total increase is the result of value appreciation. This includes \$2.8 billion, or 21.3 % in residential value appreciation, and \$1.26 billion, or 14.6% in commercial appreciation. This also includes \$4.6 million, or .6% appreciation, in non-locally assessed properties. In CY 2004, just under \$3 billion was added as a result of value appreciation (as compared to the \$4.1 billion this year).

- Real property classified as residential property for assessment purposes for CY 2005 represents 59.5% of the total real property tax base; property classified as commercial, vacant land and public service corporations, represents 40.5% of the tax base. Distribution of the City's real property tax base allocated between classifications[3] of real property for assessment purposes is shown in Table 2 below:

[3]Real property classified as residential property for assessment purposes includes single family homes, residential condominiums and cooperatives, but does not include multi-family apartments or vacant residentially zoned land. Real property classified as commercial property for assessment purposes includes multi-family rental apartments, office, retail and service properties; public service corporation properties assessed by the State; and all vacant land , whether zoned residential, commercial and industrial. Classifications assigned to real property for assessment purposes by concentrate on how a property is viewed from the perspective of informed buyers and sellers.

Table 2 - Distribution of CY 2005 Real Property Assessments by Property Classification

Property Classification	Percentage	CY 2005 Assessments
Residential Single Family	42.4%	$11,604,206,500
Residential Condominium	17.1%	$4,668,117,100
Commercial Multi-Family Rental	11.3%	$3,088,102,300
Commercial Office, Retail & Service	23.7%	$6,499,397,600
Vacant Land	2.7%	$ 726,885,700
Public Service Corporation	2.8%	$ 772,940,700
Total	100.0%	$27,359,649,900

RESIDENTIAL PROPERTY

Points of Interest Relating to CY 2005 Residential Assessment Changes:

- The average assessed value for an existing residential property (consisting of single family homes[4], residential condominiums[5], and cooperatives[6]) increased 21.3%, from $364,240 in 2004 to $441,823 in 2005 (Attachment 1, page 1, line 16, column 9).
- The average assessed value for a residential single family home as of January 1, 2005, increased 18.6%, from $474,782 to $563,092.
- The average assessed value for a residential condominium as of January 1, 2005 increased 28.8%, from $223,368 to $287,765.
- New residential construction added $206.0 million, or 6.8% of the $3.0 billion total increase in the value of residential property. Appreciation accounted for $2.8 billion, or 93.2% of the $3 billion increase.

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[4]Single family homes include detached homes, semi-detached homes (duplexes and end town home units), and row houses (town homes that are generally interior units).

[5]Residential condominiums include garden condominium units, high-rise units, and town home units located in condominium communities which have legally declared the condominium form of ownership.

[6]Cooperative is defined as a form of ownership in which each owner of stock in a cooperative community, or housing corporation receives a proprietary lease on a specific unit and is obligated to pay a rental rate that represents the proportionate share of operating expenses and debt service on the underlying mortgage.

- The median assessment and the number of parcels by range of assessed value are shown in Table 3 below. The number of properties valued under $250,000 has dropped from 13,259 in CY 2004 to 8,780 in CY 2005 reflecting a 33.8% decrease. The number of properties assessed over $500,000 has increased from 7,000 in CY 2004 to 10,738 in CY 2005, or by 53.4%.

Table 3 - CY 2005 Median Residential Assessments

Assessed Range	Number of Units	Total Assessments	Median Assessment
Less than $100,000	118	$7,086,300	$83,800
$100,000 - $249,999	8,662	$1,669,845,900	$193,200
$250,000 - $499,999	17,294	$6,361,980,500	$366,400
$500,000 - $749,999	7,345	$4,431,083,500	$591,800
$750,000 - 999,999	2,200	$1,852,294,900	$827,200
1,000,000 - 1,999,999	1,041	$1,342,306,500	$1,210,000
$2,000,000 +	152	$578,147,800	$2,462,500

- 2005 assessed value ranges for single family homes and condominiums within each small area plan are included as Attachment 4.

- The assessment/sales ratio for residential property (including single family homes and condominium units) for CY 2004 was 78.9 %, and for this same period last year the assessment sales ratio was 82.3%. This is a measure of CY 2004 assessments (as of January 1, 2004) against subsequent CY 2004 sales. As a result, with an appreciating market, the AV/sales ratio will be chasing the market. Only arm's length transactions are used for assessment/sales ratio study purposes. A summary of prior year assessment/sales ratio results is shown in Table 4 below:

Table 4 - Residential Assessment/Sales Ratio Studies Summary Results for Calendar Years 1999-2004

Study Year	Units Sold	Total Sale Price	AV/Sales Ratio	Average AV Change in Yr. after Study
2004	3,746	$1,476,487,148	78.9%	N/A
2003	3,516	$1,144,718,513	82.3%	16.9
2002	3,401	934,579,588	76.5%	24.5
2001	3,088	732,429,726	78.3%	15.3
2000	2,769	609,111,863	84.2%	10.6
1999	2,339	523,683,563	90.1%	4.59

- Residential Real Property Sales Statistics for 2002, 2003, and 2004 which reflect the dollar volume, the number of units sold and the average sales price are included as Attachment 5. Although the residential sales volume has increased 40% from $1.1 billion to $1.5 billion since 2002, the number of units sold has remained steady at around 3,700 residential units sold per year.

- Mortgage interest rates in 2004 declined slightly, even though short term interest rates increased. This situation surprised many economists who had all predicted rising mortgage interest rates (and therefore tempered price appreciation in 2004). The reasons may include the continued increasing foreign investment in the U.S. money markets, as well as the assumption that rising short term interest rates means inflation (the bane of the long term mortgage investor) is assumed to remain under control.

COMMERCIAL PROPERTY

Points of Interest Relating to CY 2005 Commercial Assessment Changes:

- The assessed value of existing locally-assessed commercial property existing on January 1, 2004, increased 14.7%, or $1.26 billion. This appreciation accounted for 72% of the total $1.75 billion increase in commercial property value (Attachment 1, page 2, line 42, column 4).

- New commercial construction added $489.5 million, or 28% of the commercial increase.

- According to Korpacz Real Estate Investor Survey (a publication of PriceWaterhouseCoopers) "As the U.S. Economy and the real estate industry both continue to gain strength, many investors eagerly await the arrival of 2005."

Office Building Overview

This property class is typically defined as office buildings and junior office buildings. The properties in this class increased 21% from 2004 to 2005. Overall, existing office buildings appreciated 12.6% from CY 2004 (Attachment 1, p.2,line 28, column 9).

According to Emerging Trends in Real Estate (a collaborative publication of Urban Land Institute and PriceWaterhouseCoopers) the office market will underperform other property sectors. The vacancy rates are declining but rents have not significantly increased. Most interviewees reported that the expectation for a full recovery of the office market will not be seen until 2006 and 2007.

Locally, the economic indicators for the commercial office market were stronger than a year ago. Delta Associates reported that "In addition to driving demand for office space, the number of new jobs being created and a growing population are fueling activity in other property sectors in the Washington metro area". The overall vacancy rate for commercial office buildings continues to decline in the region. That was the case in Alexandria until the end of FY 2004, when the Army Material Command (AMC) moved to Fort Belvoir and left 611,000 square feet of office space empty on the western end of Eisenhower Avenue. This major move caused the City's vacancy rate to increase from 9.3% to 13.1%. The market for the smaller, tenant occupied office space has continued to be very strong in the City which is reflected in the sales prices for these types of properties.

There have been several significant sales of large commercial office properties in the City over the past year that demonstrates a strong demand for investors wishing to purchase these properties.

- For example, the Shirlington Gateway Office building sold in November 2004 for $40.5 million. This is a 205,000 square foot office tower with structured parking, and was 98% occupied as of the date of sale. The sale price equates to $338 per square foot of net leasable area.

- The 218,900 square foot high-rise office building at 3101 Park Center Drive sold for $37.3 or $158 per square foot of building area. A representative of the seller reported that the property was on the market for 60 days and sold for $1,000,000 above the original asking price. At the time of sale the building was 99.5% occupied, with GSA occupying 96% of the building.

- The Summit Center building at 4700 King Street sold in October 2004 for $23.3 million. The property contains retail uses on the first floor, and offices above. The site also includes a free-standing restaurant. Net rentable area is estimated at 129,200 square feet, and the sale price equates to $181 per square foot. The prior sale of the property occurred in July 2002 for $16.4 million.

- 2000 Duke Street (previously Time Life) sold on March 2, 2004 for $37.8 million, or $253 per square foot of building area. The building was over 50% vacant at the time of sale.

- Two buildings in Carlyle, 1900 Duke Street and 333 John Carlyle Street, sold to a single foreign investor in May 2004. The two buildings contain a total of 249,100 square feet of leasable area and sold for $80 million, or $321 per square foot. Both properties had high occupancy and were in stabilized operating positions at the time of sale. This same investor (Grosvenor), who also purchased the Starwood Urban properties (Seaport Inn and various buildings on the 100 block of King Street), reflects the strong overseas institutional interest in investing foreign currency in low-dollar valued U.S. properties.

Multi-Family Overview

Existing multi-family properties increased 15.7% for CY 2005 (Attachment 1, p.2, line 24, column 9). Comparatively, in CY 2004 this class of property increased 15.4%, indicating a steady growth. The vacancy rates remain low; however, rents have not escalated rapidly. With the continued downward movement of the capitalization rates, these properties have remained desirable.

The concern of a year ago continues in Northern Virginia with the significant number of units in the pipeline for development (now for condominium form of ownership). Over the past twelve months this concern has moved from the multi-family rental market to the condominium market. Many existing properties in the City are slated for conversion to condominiums, and some new construction in Northern Virginia intended for rental units, has changed to condominium ownership. The following properties have recently sold and are likely to be converted from rental units to condominiums; Palazzo at Park Center (2901 N. Hampton, Jamestown Village, Alexandria Commons (Oakwood), Governor Spotswood/Boulevard Apartments (The Bearings), The Metropolitan (4840 Eisenhower Ave.), Executive Club (The Riverton). If this trend continues, the concerns are the over abundance of inventory of condominium units, and the loss of affordable rental units within the City.

Condominium conversions have both positive and negative consequences. On the down side, condominium conversions reduce the stock of low and moderate income housing. On the up side, condominium conversions create moderate income home ownership opportunities, as well as increase the stock of owner-occupied units in the real estate market. However, since the last two condominium conversion eras in Northern Virginia (late 1970s and early 1980s, and the late 1980s) signaled an end to skyrocketing residential assessments, it may be that this latest round of condominium conversions is a harbinger of the end of the current real estate market cycle.

Hotel Overview

Hotel operators reported improved operating conditions for hotels above levels seen during 2001 through 2003. Hotel assessments increased by 23.7% over last year, with almost all of the increase attributed to appreciation, 21.9%. There was one recent sale of a hotel property; in May 2004, the 247-room Hilton Hotel at 1747 King Street sold as a "turn-key" operation for $59 million, or $238,900 per room.

Shopping Center Overview

Shopping Centers in the City increased 15.1% above the 2004 assessed values (Attachment 1, p.2, line 30, column 5). Landmark Mall remained unchanged for CY 2005 based on the current income levels and the prospect for redevelopment of the site. The Potomac Yard Retail Center continues to be a very strong big box center with continued appreciation in value. The neighborhood centers are generally fully leased and national studies indicate this property type continues to generate high investor interest, particularly for centers anchored with large supermarket tenants.

Warehouse Overview

Warehouse properties are in low supply in the City and the demand continues for many users to occupy a limited amount of this type of commercial space. This market continues to be characterized by low vacancy and increasing rental rates. The overall assessment of warehouse properties increased by 10.4% (Attachment 1, p.2, line 31, column 9).

The sales of warehouse properties where the existing industrial improvements will be demolished and the land will be redeveloped with mixed-use, retail/residential improvements. These include the Hennage property (The Monarch), the Hopkins site (The Prescott), and an industrial flex office site at 800 North Henry Street, all purchased for the purposes of redevelopment.

General Commercial Overview

This property class encompasses a wide variety of property types and for CY 2005 an existing property appreciated 17.2% (Attachment 1, p.2, line 27, column 9). General commercial properties typically have 12,000 square feet or less of building area, and contain uses such as retailers, repair and service establishments, restaurants, financial institutions, and medical buildings. General commercial property sales volume has increased dramatically over the past few years. Owner-occupants and small investors with the availability of cash and low financing rates have contributed to the increase in the sales prices for this type of property. The downtown area has sales between $300 to $500 per square foot of building. These prices were unprecedented a few years ago and have become the norm. Mt. Vernon Avenue is similar to the downtown area in demand and has prices in excess of $200 per square foot.

ASSESSMENT PROCESS

The legislation enabling and requiring the City to annually assess real property for local taxation is found in the Virginia Constitution, Code of Virginia, Charter of the City of Alexandria and Alexandria City Code.

The Department of Real Estate Assessments (DREA) annually assesses all parcels of real estate in the City at 100% of fair market value. In establishing annual real property assessments, DREA uses mass appraisal methods to estimate the fair market value of real property. Mass appraisals replicate the market for one or more land uses across a wide geographic area, while single-property appraisals represent the market for one kind of land use in a limited area. Mass appraisal builds on the same principles as single-property appraisal. The CY 2005 real property assessments are the result of measuring market indicators from arms's length transactions, property income and expense data, and comparable construction cost data. Staff also employs numerous data services and our Computer Assisted Mass Appraisal (CAMA) System to produce equitable values for all properties in the City.

For CY 2005, 40,130 local taxable properties were assessed. Also assessed on an annual basis are 946 tax exempt parcels. Assessment notices were mailed to property owners on February 8, 2005. Real estate assessment information was available on the city's web site on February 8 (in conjunction with the City Council presentation), which included the forms needed for the review and appeal process, the 2005 assessments for all locally assessed properties, general assessment information, and our improved data search capability on the real estate portion of the City's web site, enabling residents to view current sales and sales used to determine their assessment.

The 2005 assessment notices included information about requesting a review of assessment with DREA by April 1 and information about filing an appeal of the assessment with the Board of Equalization and Assessment Review by July 1. Typically less than 2% of owners or real property challenge the assessed value of their property through the annual assessment review and appeal process. In 2004, the number of requests for assessment reviews filed with DREA and appeals to the Board represented 1.7% (693) and 1.1% (431), respectively, of the 40,130 locally assessed properties in the City. To date in CY 2005, only 166 property owners have requested review forms. This compares to 193 requests for review forms at this time last year which is a 14% decrease in the number of reviews to date; however, we believe that since more property owners print the forms needed from the City's web site, a request for review forms is not as useful a measure as it historically has been.

ATTACHMENTS:

1 - CY 2005 Real Property Assessment Summary Including Appreciation and New Growth
2 - Map Showing 2004 to 2005 Residential Property Appreciation by Geographic Area
3 - CY 2005 Median Assessments for Single Family Homes and Residential Condominiums (by value ranges and geographical areas)
4 - CY 2005 Average Real Property Assessments for Single Family Homes and Residential Condominiums by Geographical Area
5 - Residential Sales Statistics (January 2002 through December 2004) Prepared by the Department of Real Estate Assessments
6 - "Speculation Clouds Real Estate Fortunes," The Washington Post, January 15, 2005
7 -"Can Anything Stop The Housing Market", The Washington Post, January 1, 2005
8 - "Market Sustains Strength Despite Predictions of Slump", The Washington Post, July 28, 2004
9 - "Office, Apartment Values Rise", The Wall Street Journal, November 17, 2004
10 - "Investment Co. Snaps Up Twin Office Towers", GlobeSt.com, May 21, 2004
11 - "Northern Virginia Set for a Rebound", The Washington Post, May 10, 2004

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City of Alexandria, Virginia
CY 2005 REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2004 Equalized Assessments (December 31, 2004) to January 1, 2005

Real Property Classification & (Parcel Count)	2004 Equalized Assessments	2005 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Locally Assessed Taxable Real Property								
Residential Real Property								
Residential Single Family								
Detached (9,135)	$5,024,644,800	**$5,949,162,900**	$924,518,100	**18.40%**	$30,297,900	0.60%	$894,220,200	17.80%
Semi-Detached (5,337)	2,186,967,300	**2,632,496,300**	445,529,000	**20.37%**	18,893,100	0.86%	426,635,900	19.51%
Row House (6,136)	2,515,637,000	**3,022,547,300**	506,910,300	**20.15%**	20,966,700	0.83%	485,943,600	19.32%
Total Single Family (20,608)	$9,727,249,100	**$11,604,206,500**	$1,876,957,400	**19.30%**	$70,157,700	0.72%	$1,806,799,700	18.57%
Residential Condominium								
Garden (8,113)	$1,750,083,900	**$2,258,846,500**	$508,762,600	**29.07%**	$33,350,500	1.91%	$475,412,100	27.17%
High-rise (7,174)	1,427,974,500	**1,996,496,200**	568,521,700	**39.81%**	102,517,300	7.18%	466,004,400	32.63%
Residential Cooperative (18)	12,863,700	**14,748,700**	1,885,000	**14.65%**	0	0.00%	1,885,000	14.65%
Townhouse (917)	327,178,000	**398,025,700**	70,847,700	**21.65%**	17,000	0.01%	70,830,700	21.65%
Total Residential Condominium (16,222)	$3,518,100,100	**$4,668,117,100**	$1,150,017,000	**32.69%**	$135,884,800	3.86%	$1,014,132,200	28.83%
Total Residential Real Property (36,830)	**$13,245,349,200**	**$16,272,323,600**	**$3,026,974,400**	**22.85%**	**$206,042,500**	1.56%	**$2,820,931,900**	**21.30%**

Attachment 1

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(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Locally Assessed Taxable Real Property								
Commercial Real Property								
Commercial Multi-Family Rental								
Garden (221)	$1,228,778,600	**$1,488,946,100**	$260,167,500	**21.17%**	$64,533,700	5.25%	$195,633,800	15.92%
Mid-rise (17)	519,067,200	**620,744,100**	101,676,900	**19.59%**	20,283,600	3.91%	81,393,300	15.68%
High-rise (27)	822,806,300	**978,412,100**	155,605,800	**18.91%**	28,410,100	3.45%	127,195,700	15.46%
Total Multi-Family Rental (265)	$2,570,652,100	**$3,088,102,300**	$517,450,200	**20.13%**	$113,227,400	4.40%	$404,222,800	15.72%
Commercial Office, Retail, and Service								
General Commercial (702)	$891,798,300	**$1,055,441,900**	$163,643,600	**18.35%**	$10,281,200	1.15%	$153,362,400	17.20%
Office (560)	3,055,237,700	**3,696,855,500**	641,617,800	**21.00%**	257,094,800	8.41%	384,523,000	12.59%
Office or Retail Condominium (471)	195,444,500	**237,151,400**	41,706,900	**21.34%**	5,805,200	2.97%	35,901,700	18.37%
Shopping Center (35)	417,941,500	**481,177,100**	63,235,600	**15.13%**	0	0.00%	63,235,600	15.13%
Warehouse (181)	508,890,400	**561,608,200**	52,717,800	**10.36%**	0	0.00%	52,717,800	10.36%
Hotel/Motel and Extended Stay (27)	377,757,200	**467,163,500**	89,406,300	**23.67%**	6,818,400	1.80%	82,587,900	21.86%
Total Commercial Office, Retail and Service	$5,447,069,600	**$6,499,397,600**	$1,052,328,000	**19.32%**	$279,999,600	5.14%	$772,328,400	14.18%
Other Commercial Property								
Vacant Residential Land (655)	$132,845,600	**$186,326,200**	$53,480,600	**40.26%**	$38,183,200	28.74%	$15,297,400	11.52%
Vacant Commercial and Industrial Land	416,718,900	**540,559,500**	123,840,600	**29.72%**	58,121,000	13.95%	65,719,600	15.77%
Total Other Commerical Property (1,059)	$549,564,500	**$726,885,700**	$177,321,200	**32.27%**	$96,304,200	17.52%	$81,017,000	14.74%
Total Commercial Real Property (3,300)	**$8,567,286,200**	**$10,314,385,600**	**$1,747,099,400**	**20.39%**	**$489,531,200**	**5.71%**	**$1,257,568,200**	**14.68%**
Total Locally Assessed Taxable Real Propert	**$21,812,635,400**	**$26,586,709,200**	**$4,774,073,800**	**21.89%**	**$695,573,700**	**3.19%**	**$4,078,500,100**	**18.70%**

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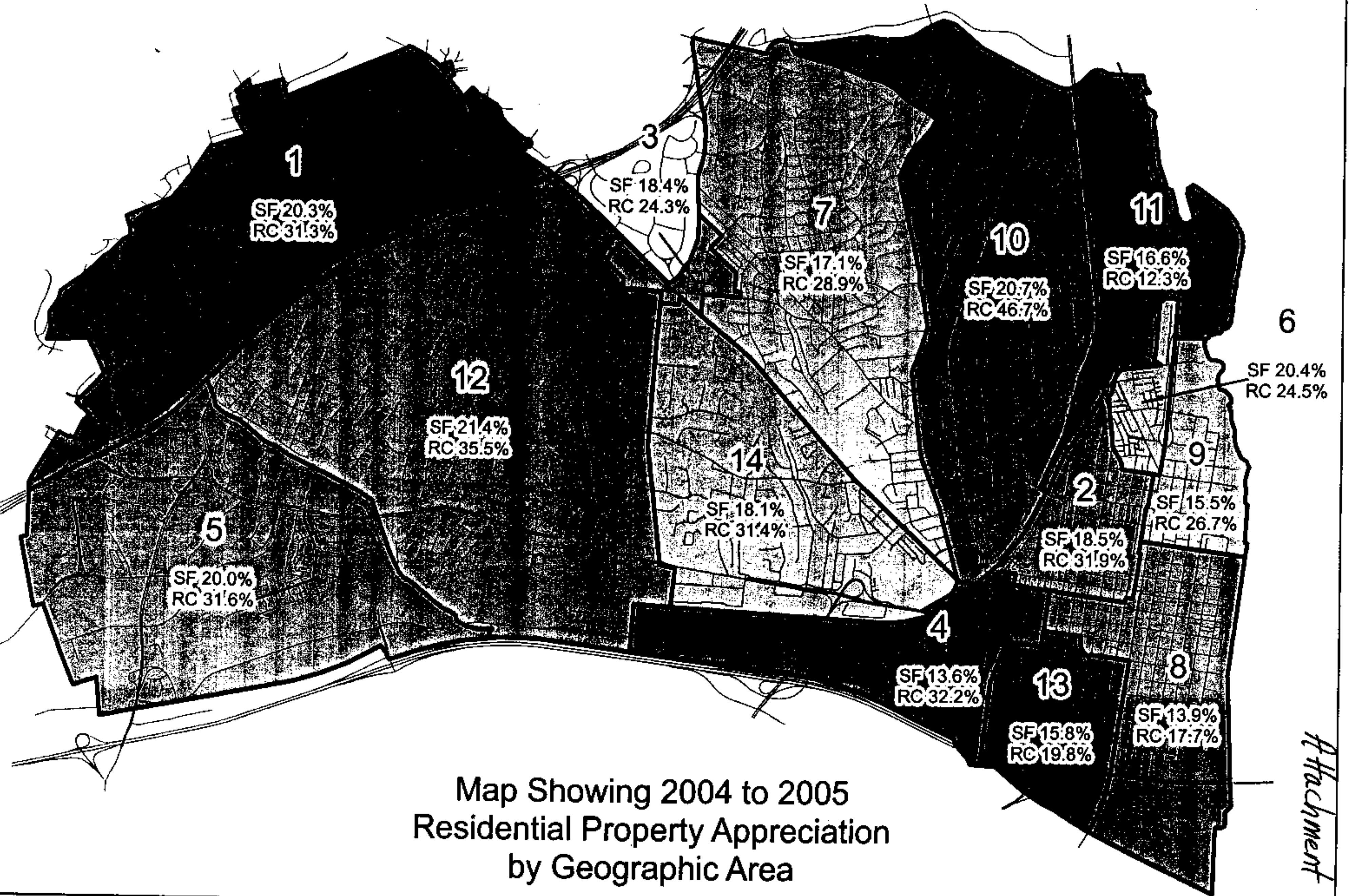
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Non-Locally Assessed Taxable Real Property								
Assessed by State Corporation Commission (SCC)								
Gas & Pipeline Distribution Corporation	$28,819,300	**$29,028,700**	$209,400	**0.73%**	$0	0.00%	$209,400	0.73%
Light & Power Corporation	461,808,800	**471,406,900**	9,598,100	**2.08%**	0	0.00%	9,598,100	2.08%
Telecommunication Company	156,515,900	**140,751,000**	-15,764,900	**-10.07%**	0	0.00%	-15,764,900	-10.07%
Water Corporation	33,311,000	**34,337,500**	1,026,500	**3.08%**	0	0.00%	1,026,500	3.08%
Total SCC Assessed Property	**$680,455,000**	**$675,524,100**	**-$4,930,900**	**-0.72%**	**$0**	**0.00%**	**-$4,930,900**	**-0.72%**
Assessed by Virginia Department of Taxation (VDT)								
Interstate Pipeline Transmission	$381,100	**$343,100**	-$38,000	**-9.97%**	$0	0.00%	-$38,000	-9.97%
Operating Railroad								
Richmond, Fredericksburg & Potomac Ra	$47,542,900	**$51,677,300**	$4,134,400	**8.70%**	$0	0.00%	$4,134,400	8.70%
Norfolk Southern Railway Co.	39,940,000	**45,354,800**	5,414,800	**13.56%**	0	0.00%	5,414,800	13.56%
CSX Transportation, Inc.	40,800	**41,400**	600	**1.47%**	0	0.00%	600	1.47%
Total Operating Railroads	$87,523,700	**$97,073,500**	$9,549,800	**10.91%**	$0	0.00%	$9,549,800	10.91%
Total VDT Assessed Property	**$87,904,800**	**$97,416,600**	**$9,511,800**	**10.82%**	**$0**	**0.00%**	**$9,511,800**	**10.82%**
Total Non-Locally Assessed Taxable Real Pr	**$768,359,800**	**$772,940,700**	**$4,580,900**	**0.60%**	**$0**	**0.00%**	**$4,580,900**	**0.60%**
Grand Total Taxable Real Property Assessm	**$22,580,995,200**	**$27,359,649,900**	**$4,778,654,700**	**21.16%**	**$695,573,700**	**3.08%**	**$4,083,081,000**	**18.08%**

Department of Real Estate Assessments, January 18, 2005

City of Alexandria, Virginia
CY 2005 TAX EXEMPT REAL PROPERTY ASSESSMENT SUMMARY INCLUDING APPRECIATION AND GROWTH
Comparison of 2004 Equalized Assessments (December 31, 2004) to January 1, 2005

Real Property Classification & (Parcel Count)	2004 Equalized Assessments	2005 Assessments	($) Amount of Change	% Change	New Growth ($)	% New Growth	($) Amount of Appreciation	% Appreciation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Tax Exempt Real Property								
Governmental								
Federal (17)	$352,280,800	**$411,419,400**	$59,138,600	**16.79%**	$0	0.00%	$59,138,600	16.79%
State (33)	159,899,200	**186,472,600**	26,573,400	**16.62%**	0	(5.06%)	26,573,400	16.62%
Regional (4)	25,730,600	**29,831,300**	4,100,700	**15.94%**	0	0.00%	4,100,700	15.94%
Local (465)	1,552,919,900	**1,812,288,100**	259,368,200	**16.70%**	15,103,700	0.97%	244,264,500	15.73%
WMATA (52)	196,854,700	**229,021,500**	32,166,800	**16.34%**	0	0.00%	32,166,800	16.34%
Total Governmental (571)	**$2,287,685,200**	**$2,669,032,900**	**$381,347,700**	**16.67%**	**$15,103,700**	**0.66%**	**$366,244,000**	**16.01%**
Non-Governmental								
Religious (193)	$283,121,000	**$336,535,100**	$53,414,100	**18.87%**	$1,722,600	0.61%	$51,691,500	18.26%
Charitable (61)	209,281,800	**228,252,600**	18,970,800	**9.06%**	151,800	(0.02%)	18,819,000	8.99%
Educational (131)	267,099,500	**303,230,500**	36,131,000	**13.53%**	0	0.00%	36,131,000	13.53%
Total Non-Governmental (385)	**$759,502,300**	**$868,018,200**	**$108,515,900**	**14.29%**	**$1,874,400**	**0.25%**	**$106,641,500**	**14.04%**
Total Tax-Exempt Real Property (956)	**$3,047,187,500**	**$3,537,051,100**	**$489,863,600**	**16.08%**	**$16,978,100**	**0.56%**	**$472,885,500**	**15.52%**

Department of Real Estate Assessments, January 18, 2005



Attachment 2

Map Showing 2004 to 2005 Residential Property Appreciation by Geographic Area

City of Alexandria, Virginia

Department of Real Estate Assessments
January 2005
Map prepared by the GIS Section of
the Department of Planning and Zoning

LEGEND

SF - Single Family Residential
RC - Residential Condominium

NOTES:
Numbers designate the geographic areas of the City that approximate the small areas developed for the Master Plan revision. The 2005 Notices of Assessment include the study group number. The first two digits of the study group number will designate the geographic area that corresponds with the map.

Attachment 3

CY 2005 Real Property Assessment Report

2005 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 1

Alexandria West

Assessed Value Range	No. of Units	Median Value
Less than $100,000	16	$80,600
$100,000 to $249,999	1,940	178,700
$250,000 to $499,999	1,596	384,000
$500,000 to $749,999	366	540,100
$750,000 to $999,999	7	834,900
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

Small Area Plan 2

Braddock Road Metro Station

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	31	233,300
$250,000 to $499,999	1,147	368,800
$500,000 to $749,999	337	588,100
$750,000 to $999,999	76	843,400
$1,000,000 to $1,999,999	13	1,060,000
$2,000,000 and over	0	0

Small Area Plan 3

Fairlington/Bradlee

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	0	0
$250,000 to $499,999	125	338,600
$500,000 to $749,999	0	0
$750,000 to $999,999	0	0
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

2005 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 4

King St./Eisenhower Ave. Metro Station

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	1	196,900
$250,000 to $499,999	457	400,800
$500,000 to $749,999	216	547,900
$750,000 to $999,999	59	819,300
$1,000,000 to $1,999,999	3	1,075,000
$2,000,000 and over	0	0

Small Area Plan 5

Landmark/Van Dorn

Assessed Value Range	No. of Units	Median Value
Less than $100,000	21	$92,400
$100,000 to $249,999	3,118	194,700
$250,000 to $499,999	2,704	334,700
$500,000 to $749,999	720	572,400
$750,000 to $999,999	64	824,300
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

Small Area Plan 6

Northeast

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	219	204,900
$250,000 to $499,999	593	405,700
$500,000 to $749,999	142	532,300
$750,000 to $999,999	4	861,900
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

2005 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 7

Northridge/Rosemont

Assessed Value Range	No. of Units	Median Value
Less than $100,000	28	$67,600
$100,000 to $249,999	926	217,100
$250,000 to $499,999	1,535	306,500
$500,000 to $749,999	1,807	597,100
$750,000 to $999,999	471	829,100
$1,000,000 to $1,999,999	214	1,234,500
$2,000,000 and over	25	2,268,100

Small Area Plan 8

Old Town

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	17	223,300
$250,000 to $499,999	576	403,800
$500,000 to $749,999	944	631,500
$750,000 to $999,999	688	838,500
$1,000,000 to $1,999,999	532	1,197,600
$2,000,000 and over	91	2,657,200

Small Area Plan 9

Old Town North

Assessed Value Range	No. of Units	Median Value
Less than $100,000	11	$53,700
$100,000 to $249,999	380	199,800
$250,000 to $499,999	800	346,800
$500,000 to $749,999	285	602,600
$750,000 to $999,999	51	828,000
$1,000,000 to $1,999,999	24	1,109,900
$2,000,000 and over	0	0

2005 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 10

Potomac West

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	786	225,800
$250,000 to $499,999	3,601	381,600
$500,000 to $749,999	1,229	575,100
$750,000 to $999,999	140	816,600
$1,000,000 to $1,999,999	17	1,093,800
$2,000,000 and over	0	0

Small Area Plan 11

Potomac Yard/Potomac Greens

Assessed Value Range	No. of Units	Median Value
Less than $100,000	0	$0
$100,000 to $249,999	0	0
$250,000 to $499,999	128	434,500
$500,000 to $749,999	139	687,700
$750,000 to $999,999	6	751,700
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

Small Area Plan 12

Seminary Hill/Strawberry Hill

Assessed Value Range	No. of Units	Median Value
Less than $100,000	41	$91,400
$100,000 to $249,999	1,015	176,800
$250,000 to $499,999	2,647	370,000
$500,000 to $749,999	426	607,900
$750,000 to $999,999	349	808,100
$1,000,000 to $1,999,999	104	1,310,400
$2,000,000 and over	14	2,261,400

2005 MEDIAN ASSESSMENT FOR SINGLE FAMILY HOMES AND RESIDENTIAL CONDOMINIUMS

Small Area Plan 13

Southwest Quadrant		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	0	$0
$100,000 to $249,999	111	215,500
$250,000 to $499,999	572	407,200
$500,000 to $749,999	157	634,600
$750,000 to $999,999	75	917,100
$1,000,000 to $1,999,999	0	0
$2,000,000 and over	0	0

Small Area Plan 14

Taylor Run/Duke Street		
Assessed Value Range	**No. of Units**	**Median Value**
Less than $100,000	0	$0
$100,000 to $249,999	140	231,800
$250,000 to $499,999	819	326,600
$500,000 to $749,999	576	609,900
$750,000 to $999,999	211	816,800
$1,000,000 to $1,999,999	134	1,166,800
$2,000,000 and over	18	2,208,000

The median assessed value is the point within the stated range at which half of the assessments are higher and half are lower.

Source: Department of Real Estate Assessments, March 1, 2005
file name: REA\departmental files\excel\cspage\05medrg.xls

City of Alexandria, Virginia
CY 2005 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2002, 2003, AND 2004

DOLLAR VOLUME

Sales Statistic	CY 2002	CY 2003	Percent of Change 2002 to 2003	CY 2004	Percent of Change 2003 to 2004
(1)	(2)	(3)	(4)	(5)	(6)
Dollar Volume of Sales					
Residential Single Family					
Detached	$264,947,139	$285,439,869	7.73	$392,365,082	37.46
Semi-Detached	187,411,759	219,689,021	17.22	247,362,667	12.60
Row House	251,710,717	292,663,142	16.27	301,628,384	3.06
Total Single Family	**$704,069,615**	**$797,792,032**	**13.31**	**$941,356,133**	**18.00**
Residential Condominium					
Garden	$216,065,094	$218,685,211	1.21	$298,010,667	36.27
High-Rise	122,019,860	157,006,978	28.67	216,012,190	37.58
Residential Cooperative					
Townhouse	28,600,827	27,875,460	-2.54	42,783,783	53.48
Total Residential Condominium	**$366,685,781**	**$403,567,649**	**10.06**	**$556,806,640**	**37.97**
Total Dollar Volume of Sales	**$1,070,755,396**	**$1,201,359,681**	**12.20**	**$1,498,162,773**	**24.71**

Attachment 5

City of Alexandria, Virginia
CY 2005 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2002, 2003, AND 2004

NUMBER OF UNITS SOLD

Sales Statistic	CY 2002	CY 2003	Percent of Change 2002 to 2003	CY 2004	Percent of Change 2003 to 2004
(1)	(2)	(3)	(4)	(5)	(6)
Number of Units Sold					
Residential Single Family					
Detached	545	552	1.28	611	10.69
Semi-Detached	473	501	5.92	502	0.20
Row House	649	664	2.31	571	(14.01)
	--------	--------		--------	
Total Single Family	**1,667**	**1,717**	**3.00**	**1,684**	**(1.92)**
Residential Condominium					
Garden	1,168	1,022	(12.50)	1,093	6.95
High-Rise	795	825	3.77	858	4.00
Residential Cooperative					
Townhouse	87	78	(10.34)	101	29.49
	--------	--------		--------	
Total Residential Condominium	**2,050**	**1,925**	**(6.10)**	**2,052**	**6.60**
	--------	--------		--------	
Total Number of Units Sold	**3,717**	**3,642**	**(2.02)**	**3,736**	**2.58**

City of Alexandria, Virginia
CY 2005 Real Property Assessment Report

RESIDENTIAL REAL PROPERTY SALES STATISTICS FOR CY 2002, 2003, AND 2004

AVERAGE SALE PRICE

Sales Statistic	CY 2002	CY 2003	Percent of Change 2002 to 2003	CY 2004	Percent of Change 2003 to 2004
(1)	(2)	(3)	(4)	(5)	(6)
Average Sale Price *					
Residential Single Family					
Detached	$486,142	$517,101	6.37	$642,169	24.19
Semi-Detached	396,219	438,501	10.67	492,754	12.37
Row House	387,844	440,758	13.64	528,246	19.85
Total Single Family	**$422,357**	**$464,643**	**10.01**	**$559,000**	**20.31**
Residential Condominium					
Garden	$184,987	$213,978	15.67	$272,654	27.42
High-Rise	153,484	190,311	23.99	251,762	32.29
Residential Cooperative					
Townhouse	328,745	357,378	8.71	423,602	18.53
Total Residential Condominium	**$178,871**	**$209,646**	**17.20**	**$271,348**	**29.43**
Average Sale Price for Residential	**$288,070**	**$329,863**	**14.51**	**$401,007**	**21.57**

Notes:

* Average sale price for each class of residential property and the average residence is calculated by dividing the dollar volume of sales (page 1) by the number of units sold (page 2). For the purposes of this report, sales of apartments converted into condominium units at Pointe at Park Center and sales of Phases 3 and 4 of the Main Street Condominium at Cameron Station units were not included in the 2003 and 2004 sales totals.

Department of Real Estate Assessments, March 1, 2005
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washingtonpost.com

Speculation Clouds Real Estate Fortunes

Some Worry That Bubble May Soon Burst

By Alison Fitzgerald
Bloomberg News
Saturday, January 15, 2005; Page F23

Forrest Maltzman, a college professor, sold stock in July to buy the house next door in Bethesda for $740,000. He plans to rent out the house to cover the mortgage, then sell it for a profit in a few years.

In the hottest U.S. real estate markets, including the Washington area, where average prices rose 22 percent in the year ended Sept. 30, investors such as Maltzman expect better returns from real estate than from equities.

"I've been nervous about the stock market," said Maltzman, 41, who teaches politics at George Washington University. "I have a lot of faith in real estate."

About 30 percent of condominium buyers in Washington and San Francisco and 40 percent in South Florida are obtaining mortgages for investment purposes, said Gregory H. Leisch, chief executive of Delta Associates, a real-estate research firm. In South Florida, average home prices are rising by as much as 29 percent annually; in Southern California, 36 percent; and Las Vegas, 54 percent.

That is a sign the market may be overheating, said Stephen Roach, chief economist at Morgan Stanley in New York.

"The latest trends in house prices and savings are disturbing," Roach wrote in a Dec. 3 note to clients. "They underscore the distinct possibility that America's asset economy is in the midst of yet another bubble-induced blow-off."

An economic decline in those high-growth pockets, especially one accompanied by job losses, might cause investors to dump properties, undermining local housing values. With the U.S. personal savings rate at a record low 0.2 percent and many people considering the equity in their homes as nest eggs, a decline in home prices could narrow retirement options.

An October report by Fannie Mae's chief economist, David W. Berson, using data from the San Francisco-based research firm LoanPerformance, said the proportion of people getting home mortgages for investment purposes nationwide rose to 9.2 percent in mid-2004 from 5.5 percent in mid-2003.

More of those people are using money for down payments that they once had invested in securities, said David Lereah, chief economist at the Chicago-based NAR.

The enticement to buy houses and condos is strong in areas such as Washington, where the median home price has risen 69 percent to $362,400 in the past three years. During the same period, the benchmark Standard & Poor's 500-stock index has risen 9.8 percent, including reinvested dividends.

The nationwide increase in average home prices in the 12 months ended Sept. 30 was 7.7 percent, according to the NAR. That leads most economists, including Federal Reserve Chairman Alan Greenspan, to conclude that there's no national housing "bubble" that might destabilize the economy.

Fast-growth markets include Miami, where values in the past year have risen 23 percent; Fort Lauderdale, Fla., up 24 percent; West Palm Beach, Fla., up 29 percent; San Diego, 33 percent; and Los Angeles, 24 percent, according to the NAR.

"There's been yield chasing, where investors that normally invest in Treasuries and corporate products chase real estate for higher yields," said John D. Benjamin, a professor of finance and real estate at American University's Kogod School of Business in Washington.

Some Fed officials are concerned. The minutes to the central bank's Dec. 14 meeting say that low interest rates may be encouraging "excessive risk-taking." They cited "anecdotal evidence that speculative demands were becoming apparent in the markets for single-family homes and condominiums."

"When the stock market was flying high, only 10 percent of condo buyers were investors," Leisch said. He estimated that 30 percent of Washington condos now go to buyers seeking investment gains.

While some investors are buying second homes in their local areas, others are purchasing in vacation properties. A record 445,000 vacation homes were sold in 2003, a 24 percent gain from 2001, the NAR said. The gain is largely driven by baby boomers reaching their peak earning years and looking toward retirement.

Prices for vacation homes in resort and coastal areas are likely to rise at twice the rate of the overall residential market, Lereah said.

An association survey to be published in February will probably show that second-home sales reached a record in 2004.

"There's a sense that the investment component has risen," said Walter Molony, a NAR spokesman. "The appreciation has been very strong, and it's been demonstrated to be a good investment."

Some builders aren't so sure.

Andrew A. Viola, vice president and Washington area regional manager of Bush Cos., said he worries that investors may be making the market unsteady. He makes buyers agree not to sell for profit within two years.

"We don't want a bunch of investors in our units," Viola said. "If these people are contracting in multiple buildings, and they're relying on taking the profits from one settlement to pay for the other settlement, and there was an adjustment in the market, all of a sudden they don't have the funds."

Toll Brothers Inc. of Huntingdon Valley, Pa., the largest U.S. builder of luxury homes, has similar anti- speculation clauses for buyers in hot markets, spokeswoman Kira McCarron said.

The precise extent to which speculation is pushing up housing values is hard to know because comprehensive data collected at regular intervals doesn't exist, say Fed officials and private economists.

"We measure who is buying and who is selling and the price," said Fed Governor Edward M. Gramlich. "To get into their intentions -- are they doing this speculatively or because they've got to have a house to live in -- is very difficult.

"I'm not saying speculation is zero, but it's a hard issue to get a handle on."

The data from Delta Associates was limited to condominium buyers in specific markets. LoanPerformance collects information about mortgage originations in which applicants say they are buying a home for investment purposes. Still, investors may falsify their intentions because mortgage interest rates and down-payment requirements are higher on investment properties, so the numbers may undercount actual investment levels.

"I still see in some very selective markets what looks like very unusual things going on in residential real estate," said Atlanta Fed President Jack Guynn. He said low interest rates discourage sound allocation of capital. "That's another reason for us to get rates to a more normal kind of setting."

Economists including the Fed's Greenspan say job and wage growth, and interest rates, are what underpins the nationwide increase in home values.

"It would take a large and historically most unusual fall in home prices to wipe out a significant part of home equity," Greenspan said in an Oct. 19 speech. "Many of those who purchased their residence more than a year ago have equity buffers in their homes adequate to withstand any price decline other than a very deep one."

The Federal Reserve raised the benchmark overnight bank lending rate five times last year, to 2.25 percent from a four-decade low of 1 percent. The average U.S. rate for a 30-year mortgage was 5.85 percent in 2004, the second-lowest in 38 years, according to Fannie Mae, the largest mortgage financier.

The last time a U.S. housing bubble burst was in the early 1990s when speculative building and a recession beginning in July 1990 combined with what some economists and builders call "loose" lending practices. It led to real-estate slumps in California and parts of the East Coast. In New England, housing prices appreciated more than 16 percent from 1983 to 1987, then fell 7.7 percent in 1990 and continued to decline for three of the next four years.

Home prices rose nationwide more than 6 percent a year from 1985 to 1989, then rose 0.2 percent in 1990.

Lereah said job loss was the major cause of past collapses in real-estate values.

Attachment 1

WASHINGTON POST

Can Anything Stop The Housing Market?

Experts Predict Steady Gains in 2005, But More Moderate Than in Past Years

By Daniela Deane
Washington Post Staff Writer
Saturday, January 1, 2005; Page F01

Last year, it seemed real estate in the Washington area could only go up.

Sales were up. Prices were up, too -- spectacularly. The price of an average house in the metropolitan area surged 24 percent from the third quarter of 2003 to the third quarter of 2004, according to the Office of Federal Housing Enterprise Oversight.

Nationwide, housing performed extremely well, too. Average home prices went up 13 percent through the third quarter of 2004. Existing-home sales, new-home sales and housing starts all hit records for the fourth year in a row.

Can this continue into 2005? What, if anything, can stop housing?

Most housing economists and market watchers believe that things will scale back from the mighty heights of this year and that home price appreciation, sales and construction will all moderate. (Of course, many of these same experts also predicted moderation, not records, last year and the year before that.) Even so, they predict a healthy year ahead nationally.

For the Washington area, the outlook is even rosier. Economists say our area's real estate market will outperform the nation. They cite the tens of thousands of jobs that are expected to be created in the area next year, mostly by the federal government and federal contractors. Demographic trends -- foreign immigration, domestic migration and longer life spans -- are also factors.

Still, housing is particularly sensitive to rising interest rates, and there are some economic situations that could push up rates, economists say. The situations are:

• An ever-ballooning budget deficit.

• A further deteriorating dollar.

• A significant downturn in the national economy that would cause big job losses.

• A terrorist attack that would drive up oil prices or interrupt oil supplies.

Barring any of those, housing should remain vibrant in 2005, economists say, particularly here.

Here's what the experts predict for this year:

Home Prices

"We'll see double-digit appreciation gains in 2005 in the Washington area. Not the 25 percent we saw this year, but low double digits. In some local jurisdictions, it'll be in the 8 to 10 percent range. For good product, we'll see appreciation of 10 to 12 percent. We've been overspending on housing for three years. I don't see a quick slowdown.

"Job growth this year will exceed that of last year. Last year, we created 72,000 jobs here. This year, it'll be more like 75,000 to 78,000."

-- Stephen S. Fuller

regional economist,

George Mason University

"We see house price appreciation continuing, but at a much more moderate pace. It's unrealistic to expect double-digit appreciation year after year after year, especially with mortgage rates slowly drifting higher. We believe house price appreciation nationwide will slow from about 10 percent to 7 percent in 2005.

"But the Washington metro area will be much stronger than the average. We don't have a model projecting local markets, but I see the Washington market coming down to about 10 percent appreciation, ballpark figure."

-- Frank Nothaft

chief economist,

Freddie Mac

"We won't be able to maintain the recent house price appreciation we've been seeing. How much it'll slow down, who the heck knows? Maybe appreciation of 5 to 6 percent nationally this year. Flat and slightly down in some metro markets.

"The Washington market is gilt-edged. The strength of the economic base here is great. History has shown us that there are no price declines unless there's a significant problem in the economy, like job losses and outmigration. That's not going to happen here. Here, we'll see prices rise higher than the national average, let's say, 7 to 8 percent."

-- David Seiders

chief economist,

National Association

of Home Builders

"There's no price bubble in this country. Could there be some local bubbles? Yes. Here? No. Here, the supply of homes is too lean, the fundamentals are too good, job growth is good, we can afford to purchase the homes and interest rates are low.

"My projection for prices is 8 percent price appreciation this year nationally. That's still very healthy appreciation but it will have slowed. It's air coming out of the balloon rather than the balloon popping."

-- David Lereah

chief economist,

National Association

of Realtors

"There's a lot of evidence that there is some weakness in the housing market already. Prices have been overvalued for some time. If we see the kind of rise in rates that I think we will, the market will take a very big hit.

"There will be price declines next year, absolutely. I'd say 10 to 15 percent in the D.C. area. It's hard to predict the timing, but I would've expected it to happen two years ago.

"New jobs aren't enough to affect the housing market qualitatively. The price increase due to higher mortgage rates swamps the impact of new jobs."

-- Dean Baker

co-director,

Center for Economic

and Policy Research

"Home price appreciation will slow but the level of prices will still rise. I would say appreciation will be anywhere between 8 and 10 percent compared with 12 to 15 percent you saw this year. It's a more modest number, but it's too early in the cycle for a crash."

-- John Silvia

chief economist,

Wachovia Corp.

"They'll slow some. There's not going to be a crash. Are there some markets that will see price declines? Absolutely. Not the Washington market. I wouldn't expect any price declines here."

-- Douglas Duncan

chief economist,

Mortgage Bankers Association

"I still see upward movement in the prices of new homes. If we continue to grow jobs in the 60,000 to 70,000 range per year, we're not producing enough housing of any type to meet that demand, and the end result has to be price increases. It's a simple law of supply and demand. I don't think we'll see relief from that until we see interest rates climb significantly."

-- Tom Bozzuto

chief executive,

Bozzuto Group

"I hope that with rising interest rates and some of the market having been satisfied, we won't see any more 20 percent appreciation rates. I would like to see appreciation be slightly more than the inflation rate, in the 5 to 7 percent range. If we have that, we can live with it long term. We can't live with 24 percent long-term."

-- P. Wesley Foster Jr.

chief executive,

Long & Foster Inc.

"We're going to continue to see house prices increase, probably not at the rate that we've seen in the past couple of years. There will be periods of leveling off. But for the overall, for the year, we'll definitely see an increase in house prices."

-- Susann Haskins

president,

Greater Capital Area

Association of Realtors

"Condo prices went up 27 percent last year in the Washington area. They're not going to go up 20 percent again next year. The market will cool down, but we'll still see solid double-digit increases, somewhere in the teens. The cool-off will come because supply is finally catching up. And demand will moderate a bit. . . .

"Anybody who thinks they should wait because prices are coming down will be sorely disappointed. They'll just be losing money by waiting."

-- Gregory H. Leisch

chief executive,

Delta Associates

"We do expect some significant deceleration in home prices, but not a decline. We see national home prices rising about 3.5 percent next year. The reason is that we have a lot of areas where home price appreciation has significantly outpaced income. Those areas are going to experience a significant deceleration or even outright declines. The majority of the country will see gains of about 4 to 5 percent. In some areas, there will be corrections. That's why we're forecasting only a 3.5 percent increase."

– Orawin Velz

economist,

Fannie Mae

Housing Sales

"Sales will look a bit more like normal, but not completely. Houses will stay on the market a bit; sometimes they'll sell for under the asking price. We'll move towards a normal market over the next years, not in 2005.

"The first half of the year will be better for sales than the second half of the year, as interest rates inch up. There will be some weakening of sellers' positions over the year. If I wanted to sell my house, I would do it this coming year, not wait until 2006."

– Stephen S. Fuller

regional economist,

George Mason University

"There are 80 million-plus baby boomers pushing the investment market these days, and the second-home market, and helping their offspring buy. The other demographic force is their kids. . . . The ones at the older part of that age spectrum are heavy in the market. . . .

"We've said every year it can't be as hot as last year again. We're seeing signs it's not quite as hot, but it's still warm in this region. The demand is sucking up the inventory."

– Dale E. Mattison

Long & Foster agent and

member, board of directors,

National Association of Realtors

"Home sales will remain quite strong. They won't be setting any records. If mortgage rates don't go up, if they average 5.8 percent again, we will have another record in home sales."

-- Frank Nothaft

chief economist,

Freddie Mac

"Sales will stay good. I don't see anything on the horizon that says anything but good sales next year. Unless something unforeseeable happens."

-- P. Wesley Foster Jr.

chief executivê,

Long & Foster Inc.

"As long as consumer confidence is high, I think property sales will continue to be brisk. We're in the classic demand-supply situation here, much more demand than supply. And that's going to continue."

-- Susann Haskins

president,

Greater Capital Area

Association of Realtors

New-Home Starts and Sales

"I am relatively bullish on new-home sales for this area for next year. Job growth continues to be extraordinary. Long-term interest rates seem to be staying relatively flat. Thirdly, most builders are going into the year with a substantial number of sales ahead of delivery. Unless interest rates skyrocketed and a whole bunch of people defaulted, I think the first half of the coming year will continue at the kind of pace we've seen in the second half of this year.

"Prices are going up across the board, because land is more expensive and fees to local jurisdictions are getting higher. Materials are also still up over a year or two ago."

-- Tom Bozzuto

chief executive,

Bozzuto Group

"For us, the year ahead is set. We're about 11 months sold out on average in almost all our communities -- that's 220 communities in 22 states. With few exceptions, we're basically sold out for 2005."

-- Robert I. Toll

chairman and chief executive,

Toll Brothers Inc.

"Housing starts will be down a little bit, maybe 500,000 units, to 1.8 million a year."

-- John Silvia

chief economist,

Wachovia Corp.

"Starts and sales will decline modestly, maybe 4 to 5 percent, maybe a bit more than that. If rates only go up half a point, that's no shock to the system."

-- Douglas Duncan

chief economist,

Mortgage Bankers Association

"The Washington new-home market is doing fabulously. New-home prices went up 20 percent plus this year. And in 2005, we can expect a similar type of appreciation. So anyone who wants to buy better buy quick."

-- Cory DeSpain

vice president, Maryland/

Virginia division,

Toll Brothers Inc.

"There will be a little drop in new-home sales and housing starts. All the major housing measures will come down a bit in 2005: sales, starts, price appreciation."

-- David Lereah

chief economist,

National Association of Realtors

"We have housing starts down a little bit in the coming year, about an 8 percent decline. Declines will be in the markets where the local economy is weaker. The local economy in the Washington area is doing really well, so it's not here I'm talking about."

-- Frank Nothaft

chief economist,

Freddie Mac

"We see a decline in housing activity for 2005. We've had such good years for the past four years. We don't expect 2005 to be another record year. We see an 8 to 9 percent decline in new-home sales and a 7 to 8 percent decline in existing home sales."

– Orawin Velz

economist,

Fannie Mae

"Housing starts will be off 3 to 5 percent next year compared to this year. It's a decline, but it's coming off record highs for housing starts, and for new- and existing-home sales. New-home sales will be down by about 5 percent."

-- David Seiders

chief economist,

National Association

of Home Builders

Home Design

"The size of the home is going to stabilize at around 2,350 square feet, but the volume will keep going up. The standard ceiling height is nine feet for an average home and 10 feet for an upscale home. Ceilings will trend higher.

"There's a trend to building more two-story homes, even though our studies have indicated that many people prefer single-story homes. Builders like two-story homes because the cost per square foot for a two-story home is much less.

"More quality features in the home is a trend that we'll see in 2005. Quality rather than size.

"Storage will continue to be a major issue. Consumers are saying that storage is more and more important. Already, storage is close to 10 percent of a home. Walk-in pantries are a must.

"Two kitchens are becoming pretty common -- the inside kitchen and the outside kitchen. Fixed barbeques, pizza ovens, deep fryers with a roof or a cover on them. Outside kitchens are becoming very popular.

"More and more separate toilets. And in upscale homes, bidets are a must. Linen closets in the bathroom. The bathroom as a retreat.

"We'll see security systems, energy management systems, lighting control systems more and more in 2005.

"More use of columns and more use of arches in homes to give them a better look."

-- Gopal Ahluwalia

director of research,

National Association

of Home Builders

"If we could build it, everything would be bigger. The market demand is for bigger, fancier homes. But there are constraints in the approval process. Consumers want bigger baths, bigger kitchens, more moldings, more luxury. If we could get through the constraints, we would build four-car garages, because people want them.

"There's a stronger and stronger market for in-fill development, closer-in, more urban type of housing, stacked condos, high-rises. That's a trend that's definitely growing.

"We're always going further out from the District. We're not in West Virginia yet, but we're on the outskirts of it. We're stretching further out in Maryland and Virginia. What used to be the boondocks is now the trendy place to live."

-- Cory DeSpain

vice president, Maryland/

Virginia Division,

Toll Brothers Inc.

"2005 will continue to see a strong demand for multi-family housing, for condos in particular. With the aging of the population, condos offer a very attractive lifestyle for people. I see condos continuing to be popular."

-- Tom Bozzuto

chief executive,

Bozzuto Group

"Screened-in porches continue to be popular. And more and more homeowners are finishing their basements. Homeowners are looking at their basements as not just cellars anymore; people are putting a lot of money into their basements now. Entertainment centers, tiling, carpet, crown molding and a huge number of built-ins. They're enlarging their windows downstairs too to get more natural light in.

"Bathrooms will also continue to be a big focus. You have 100 percent more options in cabinetry than you had five years ago, so many more options for finishings, detailing and fittings."

– Mark Richardson

president,

Case Design/Remodeling Inc.

"We already know it's going to be a good year because we're booked up until September. All of next year is fully sold, deposits in hand.

"The majority of our projects are pop-up renovations, one-story ramblers where we're putting on a full second floor, master suite and extra bathrooms. . . .

"Most of our clients are doing big projects, major work, significant remodels, projects that cost anywhere from $200,000 to $500,000.

"When they remodel, people are looking for those extra details. The detailing on the front porch, built-in bar areas with little racks, glass storage areas. They want it special, unique and personalized, not cookie cutter."

– Chris Neumann

co-owner,

Encompass Design/Build

Mortgage Rates

"Both short- and long-term interest rates move up in 2005. If you have an adjustable-rate mortgage or a home equity line tied to the prime rate, those rates will go up commensurate with the Federal Funds rate.

"Long-term interest rates will go up too. We're looking at 6.6 percent by the fourth quarter of 2005."

-- John Silvia

chief economist,

Wachovia Corp.

"I've been amazed that mortgage rates have stayed as low as they have for as long as they have. I'll be very surprised if they stay this low throughout the coming year. It doesn't make sense. I see mortgage rates going to a little over 7 percent next year."

-- Dean Baker

co-director,

Center for Economic

and Policy Research

"We have mortgage rates gradually rising about half a percentage point over the course of 2005, ending the year at 6.25 percent. Just a very gradual rise over the year.

"ARM rates [adjustable-rate mortgages] will go up more than half a percentage point since the Fed is intent on gradually increasing short-term rates. More borrowers will go with fixed-rate mortgages rather than ARMs over next year."

-- Frank Nothaft

chief economist,

Freddie Mac

"Both short and long-term rates will be higher a year from now. Mortgage rates will be at 6.75 by late next year. The increases won't be dramatic."

-- David Seiders

chief economist,

National Association

of Home Builders

"We see mortgage rates going up to probably only 6.25 percent by the end of the year. We have a range of 6.25 to 6.5 percent."

-- Orawin Velz

economist,

Fannie Mae

Rental Market

"The apartment industry in the Washington area will continue to recover in 2005. We'll begin to see rent increases in Northern Virginia. That's happening right now. In Montgomery County, we won't see any increases through the year, but you will see the apartments filling up again. In D.C. you'll see rent increases next year. Metro-wide, you'll see 3 to 5 percent rent increases, perhaps higher in the District and Northern Virginia."

-- Tom Bozzuto

chief executive,

Bozzuto Group

"We're going to see rent spikes in Northern Virginia next year, rent increases of 8 to 9 percent starting in the summer-fall leasing season. In D.C., we'll see rents increase in the 4 plus percent range. But rents in Montgomery County will stay relatively unchanged, maybe up only modestly.

"Vacancy rates are going to tighten next year. They already tightened this year. The overall metro vacancy rate is likely to stay the same at 2.4 percent, but vacancies will be tighter in northern Virginia and looser in suburban Maryland. The problem in suburban Maryland is that a lot more product is being developed there."

-- Gregory H. Leisch

chief executive,

Delta Associates

"Hopefully, the rental market will be better in 2005 than it was in 2004. We're hoping to see some improvement next year. Renting is a relative bargain these days as a housing choice.

"In terms of rents, we're almost back to where we were in mid-2001. We reached our peak for rents in the middle of 2001 and then they went down. I'm projecting that in 2005, we'll get back to 2001 levels. . . .

"New residents moving to the area who compare the cost of ownership to the cost of renting will find renting increasingly attractive these days since condo prices have gone up so much. There was a point, when prices were lower and interest rates were really low, that renting looked less attractive.

"There are still lots of concessions in this market. Two months free rent downtown is pretty typical because a lot of projects are in lease-up now. We're expecting to see that get cut back to one month's free rent in 2005."

– Stanley Sloter

president,

Paradigm Cos.

Attachment 0

WASHINGTON POST

Market Sustains Strength Despite Predictions of Slump

By Sandra Fleishman
Washington Post Staff Writer
Wednesday, July 28, 2004; Page E01

Ron Rush knows the housing market could cool someday, but the Fairfax County real estate agent hasn't seen it happening yet.

An example: A four-bedroom Colonial near Fair Oaks mall that Rush sold in 1997 for $203,000 brought $330,000 in 2002; last month, it went under contract after being listed at $449,900.

"January to May was the intensest, if that is a word, market I've ever seen in my 35 years in the business," said Rush, who works in the Fair Oaks office of Long & Foster Real Estate Inc.

More recently, he said, the market has been a bit less frenetic. "It's still a good market, just not as intense as the spring."

In Alexandria, Coldwell Banker Residential Brokerage agent Nancy Tompkins said demand and prices remain strong. She got a contract yesterday on an Old Town house listed for $1.6 million that drew multiple bids. Five years ago, the four-bedroom, 3 1/2-bath house sold for $720,000.

Any signs the market is turning? "We don't see it," Tompkins said. And what about a pricing bubble about to burst? "Oh, heavens no, not in this area."

National statistics released this week show the market is still cooking despite some predictions that rising interest rates and unsustainable prices could bring the years-long climb to an end.

Yesterday the Commerce Department said new-home sales in June were down from the record set in May. June's seasonally adjusted annual rate of 1.33 million sales was 0.8 percent below the revised May estimate of 1.34 million but 11 percent above a year earlier.

Locally, the market for new-home sales also remains brisk, builders say. Eakin/Youngentob Associates Inc. of Arlington sold out 374 townhouses in the Fallsgrove development in Rockville this spring, a year and a half ahead of schedule. A three-bedroom, 2,000-square-foot townhouse model that sold for $275,000 three years ago just went for $525,000.

On Monday, the National Association of Realtors said June sales of previously owned homes broke May's record with a seasonally adjusted annual rate of 6.95 million units. June's pace was 2.1 percent higher than that in May and 17.4 percent higher than in June 2003.

Many economists had expected home sales to slacken significantly because of rising mortgage interest rates in April and May and because of concern that prices are outpacing inflation

For example, Merrill Lynch & Co. and Lehman Brothers Inc. economists had predicted this week that June new-home sales would dip about 7 percent.

There's no consensus among economists on what could happen later this year and beyond.

Some say the nation is in a housing bubble and prices are too high by as much as 20 percent. "The fact that there has been an unprecedented run-up in home prices over the past eight years creates the possibility for an unprecedented decline in the years ahead," Dean Baker of the Center for Economic and Policy Research wrote in a recent report.

Others say talk of a bubble is rash. Robert P. Curran, senior director of Fitch Ratings Ltd. and its primary analyst of the housing industry, said concerns about bubbles and rapidly rising mortgage rates appear to be overstated.

"People have been calling the peak for five or six years, and it just hasn't happened," Curran said.

David F. Seiders, chief economist for the National Association of Home Builders, said: "I firmly believe that current price levels are sustainable, i.e., supported by fundamentals rather than by raw speculation virtually everywhere.

"Economic [and] job market conditions are improving in most places, and history shows that house prices don't fall in the absence of severe economic dislocations."

May was particularly hot, analysts say, because buyers grabbed low mortgage rates before they increased.

By June 20, rates on 30-year loans were up to an average 6.32 percent in anticipation of the Federal Reserve's expected vote to raise overnight interest rates on June 30. Since the vote, though, rates have unexpectedly fallen, to below 6 percent as of last week, the lowest in three months. Some economists say the drop probably is prompting more potential buyers to take the plunge, but they suspect that most people have jumped by now.

"The Federal Reserve will undoubtedly raise interest rates further," said Lawrence Yun, a senior economist at the National Association of Realtors. "In the next six months to a year, we see mortgage rates close to 7 percent and at that point, the home-buying activity will ease a bit."

Some economists, however, continue to say they believe the market has already turned.

The resale market "held up a little better in June than anticipated," senior economist Drew Matus of Lehman Brothers said Monday, "but the party is ending."

Yesterday, Matus said June's slight drop in new-home sales "was not the decline we were expecting. It was a surprisingly robust number given the huge number we saw in May."

But, he said, "I still think we're seeing the last holdouts who wanted to buy homes moving into the housing market. Over time, we'll see mortgage rates increase. That will lead to a decline in housing affordability, and that decline will crimp overall housing activity."

Matus cited as evidence a report last week from the Commerce Department of a steep drop in June housing starts and building permits. Starts dropped 8.5 percent from May to the lowest level in just over a year. Permits, which reflect builder confidence in future sales, fell 8.2 percent, the biggest monthly decline since 1994.

After hearing those numbers last week, Matus predicted: "This is, I think, the long-awaited start of the slowdown in the housing market."

Federal Reserve Chairman Alan Greenspan said in congressional testimony last week that June's unexpected drop in housing starts and permits wasn't "a cause for concern." Greenspan, who described the nation's economy as going through a "soft patch," said construction activity would rebound.

Frank E. Nothaft, chief economist for Freddie Mac, noted that he still expects records this year for new-home sales, existing-home sales and construction starts because of the strong first five months. But he and others have predicted a return to more normal sales numbers later in the year.

"Before we say the housing boom is over, I prefer to see two or three months of housing data all pointing in the same direction," Nothaft said. "We haven't seen that yet."

Locally, said George Mason University regional economist Stephen S. Fuller: "The party's definitely not over, not with 82,000 new jobs so far this year."

He said that "there is enormous pent-up demand here" that will take years to meet.

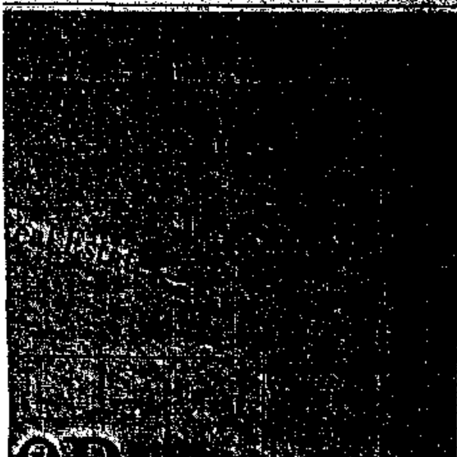
If the market does slow, he said, "I don't think our builders will notice because they're so busy."

Office, Apartment Values Rise

By Ryan Chittum

The value of office buildings made the biggest jump in two years during the third quarter while apartment values continued to post strong increases, all as leasing activity kept strengthening in both markets, according to a new survey.

The average value of office space increased 1.2% to $134.13 a square foot from $132.52 in the second quarter, according to the survey of the top 50 U.S. markets prepared for The Wall Street Journal by Reis Inc., a New York-based real-estate research firm. That helped confirm that a 0.1% increase in the second quarter, the first positive movement in more than a year, wasn't just a blip.



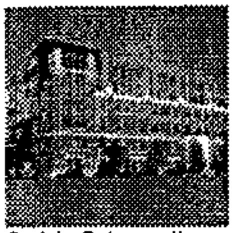
Average apartment values surged 2.2% in the third quarter to $71,132 per unit, from $69,601 in the second quarter. It was the second-largest increase in value in the past two years, behind the 2.5% jump in the second quarter.

But the disparity between actual sales and the underlying value of offices and apartments continued to increase, with office properties selling at a 25.3% premium over their values and apartments going for 22% more. With a report out yesterday that showed the highest wholesale inflation increase in nearly 15 years, that could spell trouble down the line, says Lloyd Lynford, chief executive of Reis.

Capitalization rates—the estimated rate of return at the time of a property's purchase—continued to plunge as investors were willing to take lesser returns for the perceived stability of real-estate assets. In the office market, capitalization rates went down to 7.9% in the third quarter, from 8.1% in the second. In apartments, they dropped to 6.8%, from 7.1% in the second quarter.

For cap rates to be dropping that much in the quarter in the face of inflationary and interest-rate pressures may lead real-estate investors to question the soundness of their pricing in the third quarter, Mr. Lynford says.

Attachment 10


Carlyle Gateway II

Investment Co. Snaps Up Twin Office Buildings

By Barbra Murray
Last updated: May 19, 2004 12:42pm

ALEXANDRIA, VA-With such a hot office market in much of the Metropolitan Washington, DC region, now is a good time to cash on an investment, or so Cousins Properties Inc. evidently thinks. The Atlanta-headquartered real estate developer has handed over ownership of Carlyle Gateway I and II—totaling 250,000 sf—to international property development and investment company Grosvenor. The players are not yet offering any hints as to the financial specifics of the transaction, however the sales price is rumored to have been between $75 million and $85 million.

While the players are keeping mum on the transaction's dollar figure for now, the properties' valuations offer a limited indication of the amount they may have commanded; Carlyle I has a current assessed value of about $23 million, and Carlyle II has an assessed value of nearly $34.5 million..

Carlyle I and II carry the respective addresses of 1900 Duke St, and 333 John Carlyle St., and sit within the mixed-use master-planned community of Carlyle in Old Town Alexandria. They boast six stories of class A office space developed between 1999 and 2000, and at the time of the deal, the combined occupancy level was more than 95%.

Cousins Properties was unavailable for comment by deadline, but for its part, the company is letting go of buildings it personally developed. For Grosvenor, the purchase marks its entrance into the Northern Virginia office market.

"The Carlyle Gateway acquisition represents a strategic addition to our Washington, DC metropolitan area portfolio," says Grosvenor senior vice president Andrew Galbraith. "The Carlyle submarket is expected to grow along with the buildout of the new US Patent and Trademark Office headquarters, while Alexandria's thoughtful master plan for this former railroad yard will maintain its desirability over the long run."

Attachment 11

WASHINGTON POST

Northern Virginia Set for a Rebound

Developers Demonstrate Confidence That the Office Market Is Improving

By Dana Hedgpeth
Washington Post Staff Writer
Monday, May 10, 2004; Page E01

The 145,000-square-foot Commerce Executive 6 office building in Reston has gone on a wild ride the last few years. It was once fully leased to the high-flying telecommunications company Teleglobe USA Inc. But after the telecom business collapsed from too much capacity and not enough demand, Teleglobe filed for bankruptcy protection two years ago and vacated the space.

In the last year, the building has been leased to a patchwork of technology companies. Transaction Network Services Inc., which processes credit card payments, took 40,000 square feet. Information Management Consultants Inc., a maker of software for back-office functions, took another 50,000. Cogent Systems Inc., another information technology company, took almost 8,000, and more tech companies took the rest, said broker Spencer R. Stouffer of Trammell Crow Co.

It is a sign, say brokers, developers and landlords, that technology tenants are back, the same types of companies that drove the boom in Northern Virginia in the late 1990s. These days it is not just government agencies and their contractors, the old stand-bys through the last few lean years, that are leasing space. Business improved for lots of local companies last year, from banking to biotechnology.

"There's no question we're seeing a direct benefit from job growth translate into a decline in office vacancy rates," said Gregory H. Leisch of Delta Associates, a real estate research company.

But landlords shouldn't start the party yet. The office vacancy rate in the first quarter was still 15.1 percent. That was a drop from 16.5 percent the year before and close to the national average of 14.8 percent, but still high enough that landlords handed out months of free rent and other sweeteners like agreeing to wire their tenants for cable free.

And the biggest new tenants are still the defense and homeland security contractors bolstered by 9/11 and the war in Iraq. They took 2 million square feet of space off the market in the first quarter in places like Tysons Corner, closer to Washington, and places outside the Capital Beltway like Reston, where tech companies had rapidly expanded in the late 1990s and early 2000.

Reston, for example, about 20 miles outside downtown Washington, has lots of newer buildings that telecommunications and tech companies once wanted but never used and are now being leased by thriving defense contractors. Titan Corp. took a large chunk of space in the Reston Town Center that had never been leased and another space that a D.C. law firm had once used for its tech division but now doesn't need. About half a mile away, consulting firm Unisys Corp. took an entire building that once belonged to Cable and Wireless USA Inc., a telecom firm that went bust.

Unlike 2002 and last year, when some of the major leases were signed by tenants consolidating space in higher-quality buildings because they could get cheap rates, this year companies are taking space because they are expanding and actually need it.

Booz Allen Hamilton Inc., a consulting company, took 242,000 square feet in Herndon to expand from its Tysons Corner office, using the new space for its homeland security contracts. The space was originally built for Winstar Communications Inc. and later leased to VeriSign, two tech companies that found they didn't need that much. Another defense contractor, BAE Systems North America, took 60,000 square feet of expansion :ce in Rosslyn.

"Almost all of the markets in Northern Virginia are seeing their vacancies go down," said Mary Petersen, a senior adviser at Cassidy & Pinkard. "This first quarter of 2004 was the kind of quarter we saw in 1999 and 2000, where there was high absorption of space. It was unlike last year [at] this time, when tenants were consolidating and not expanding."

The crash of the technology industry pushed the vacancy rate in Northern Virginia from 4 percent to 14 percent in 2001, and rental rates declined dramatically. At one office building in the Reston Town Center, Petersen said, rents that reached more than $40 a square foot were cut in half in 2002.

Because its tech companies are more volatile than the District's law firms and lobbyists and Maryland's staid government contractors, Northern Virginia's office market can be more volatile, too.

"Northern Virginia can go from boom to bust to boom pretty quickly," said Petersen. In 1999 and 2000, the fast-growing tech and telecom companies absorbed 8 million square feet of space in Northern Virginia. After the crash, companies such as Winstar, WorldCom Inc., Cisco Systems Inc. and MicroStrategy Inc. put space back on the market.

Things began to turn around in 2003, when war started in Iraq, and Northern Virginia absorbed 3 million square feet of office space as government agencies and contractors including the Central Intelligence Agency and Lockheed Martin Corp. started hiring. The job growth has continued. In March, Northern Virginia added an estimated 22,900 jobs, and not all of them were in government or defense: Information technology, finance and professions such as law and business services grew, as well as the federal government.

"The economy here is doing spectacular," said Stephen Fuller, an economist at George Mason University. The Washington area, he says, "accounted for one out of every five jobs created in the U.S. in the last year." Those jobs were mostly in construction, hospitality, retail and business and managerial services, Fuller said.

Office leasing lags behind the job growth, but there are signs things are improving. At the end of 2001, there was 22 million square feet of available office space in Northern Virginia; now there is 20 million.

Northern Virginia, in fact, is doing as well as or better than other technology hubs, economists and real estate brokers said. In Boston and its suburbs, the first-quarter vacancy rate was at the same 15.1 percent as Northern Virginia, and San Francisco was at 18.5 percent. Dallas-Fort Worth was 20.7 percent and Atlanta 17.9 percent.

Still, the tech bust has hurt, and it can be seen in vacancy rates for markets within the region. Herndon, where many of the tech companies located during the late 1990s and early 2000, still had the highest vacancy rate in the area at 24.8 percent. Tysons Corner was at 17.9 percent because it did not have as many large blocks of space left from tech companies as Herndon and Reston.

One of the biggest deals in Tysons Corner was Freddie Mac taking 200,000 square feet in Capital One's former building in West Park, a major office park. The credit card company moved to a new building in Tysons Corner.

Developers are starting to feel more confident; they have 5.3 million square feet under construction this quarter, up from 4 million in 2003. Federal defense and homeland security agencies have committed to taking at least 80 percent of the space being built. (About 2 million square feet of the space under construction is for the new headquarters of the U.S. Patent and Trademark Office in Alexandria.)

Economists and real estate brokers said they expect vacancy rates to drop to a rate more normal for this area -- between 9 percent and 11 percent -- by early next year. "When we get to that range, that's when rental rates will start moving up," Fuller said. "The kind of buildings that companies are taking now are in Herndon and Reston, where it's newer buildings with all the amenities and closer to where people live."

Landlords are starting to raise rents slightly in some places. In more expensive neighborhoods like the Reston Town Center, mostly high-rise office buildings where shopping and restaurants are on the first levels, rental rates jumped into the high $20s, about 25 percent higher than the rates tenants paid after the high-tech implosion, when landlords simply tried to fill buildings.

The exception is Tysons Corner, where near the Galleria mall, financial service companies and law firms took space and paid about $40 a square foot, rates that rival what downtown companies pay. The "downtown" of Northern Virginia with Beltway access and the address with the most cachet, Tysons can still command that rent.

Landlords are still making concessions to attract tenants, although not at the desperate levels of last year, when some were said to be throwing in free cruise trips and cars to brokers who filled their empty buildings. Now landlords throw in between two and six months of free rent and agree to pay for the cabling or wiring a tenant may need in the office space, according to Tony Womack, a broker at Spaulding & Slye Colliers LLC who represents landlords in Northern Virginia.

Janet Davis, a senior vice president at Prentiss Properties Trust, a Dallas-based real estate company that owns about 2 million square feet of offices in Merrifield and Tysons Corner, was excited after signing several deals in the last month -- one of her busiest since the tech boom. "It had gotten lonely out here," she said, noting that some of her buildings lost tenants. "Now it's starting to percolate."

w firms and architects, banks, mortgage companies and lobbying groups are taking space in a Tysons Corner building her company owns. WorldCom once occupied it. She is having to give in a lot.

She is getting rents less than what she once got, but she still has to outfit a space with wiring and cables for a tenant. And because some of her tenants are confident they'll outgrow the space fast, they want to sign three-year leases rather than 10-year deals.

"I'm betting that rents will be up in three years and I can get them to renew or I can get someone else in there," she said.